

## MEMORANDUM



**DATE:** January 25, 2006  
**TO:** House Committee on Tax Policy  
**FROM:** William E. Hamilton  
**RE:** ASAP and Aeronautics Capital Outlay Programs

**Background** – The State of Michigan provides support to state airports in two separate budgets. The state Transportation budget provides funding for the Michigan Department of Transportation's Aeronautics administration and regulatory functions, Aeronautics debt service, and the Aeronautics Air Service Program (a grant program for certain commercial air service airports).<sup>1</sup> Funding for Aeronautics capital projects is provided in the state Capital Outlay budget.

**Capital Program** – For a number of years, the Aeronautics capital program was identified in Capital Outlay bills as the "Airport Improvement Program." The Airport Improvement Program (AIP) is the name of the program of federal aid to airports.<sup>2</sup> In February 2002, the Engler administration, as part of its FY 2002-03 budget presentation, proposed a five-year, \$1.1 billion, "Airport Safety and Protection (ASAP) Plan." The plan involved a five-year program of capital improvements focused on safety and security at Michigan airports. Funding for the plan was to come from a combination of federal funds, local funds, and up to \$60.0 million in state bonding, described in more detail below. Repayment of the bonds was to be made from an earmark of Airport Parking Tax revenue made in HB 4454 (PA 680 of 2002). In effect, legislative approval of HB 4454, as well as approval of appropriations bills HB 4343 (PA 530 of 2002) and SB 1099 (PA 518 of 2002) constituted legislative authorization for the program.

For the first two years after adoption of the ASAP plan, Capital Outlay bills made a distinction between AIP projects and ASAP projects. However, beginning in FY 2003-04 all Aeronautics capital projects were described as "ASAP" in the Capital Outlay bill, even those projects that were part of the federal Airport Improvement Program. In effect, the department and the State Budget Office dropped the distinction between Airport Improvement Program and the ASAP Plan.

**Bond Financing** – The use of bond financing as part of the ASAP program was in response to a reduction in available State Aeronautics Fund (SAF) and General Fund/General Purpose (GF/GP) revenue. SAF revenue, which is derived primarily from aviation fuel taxes, had been used to support the AIP in the Capital Outlay appropriations, and for other aeronautics programs in the state Transportation budget. Revenue from those aviation fuel taxes had been in decline for several years, in particular after the events of September 11, 2001. GF/GP revenue had also been appropriated in Capital Outlay budgets to match federal AIP funds. In 2002, the department was concerned that there would not be sufficient state

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<sup>1</sup> "Aeronautics" in this memo refers to programs of the Aeronautics Division within the Michigan Department of Transportation's Bureau of Multi-Modal Transportation Services.

<sup>2</sup> Congressional Research Service Issue Brief IB10026 describes the Airport Improvement Program as follows: "The Airport Improvement Program (AIP) has provided federal grants for airport development and planning since the passage of the Airport and Airway Improvement Act of 1982 (P.L. 97-248). AIP funding is usually spent on projects that support aircraft operations including runways, taxiways, aprons, noise abatement, land purchase, and safety, emergency or snow removal equipment. Funds obligated for the AIP are drawn from the Airport and Airway Trust Fund, which is supported by user fees and fuel taxes." In December 2003, President Bush signed into law *Vision 100 - Century of Flight Authorization Act of 2003* (Public Law 108-176) which reauthorized federal aeronautics programs, including the AIP, through September 30, 2007.

revenue to match available federal funds for Aeronautics capital programs or to meet the demonstrated capital needs of Michigan airports.

The ASAP bond program, as proposed, involved the sale of up to \$60.0 million in Comprehensive Transportation Fund (CTF) bonds to be used to match available federal funds. The ASAP bonds were to be secured by CTF revenue, rather than SAF revenue, because the State Transportation Commission has no statutory authority to sell SAF revenue bonds. Debt service on the bonds would be made from the CTF; the SAF would then reimburse the CTF.

HB 4454, as enacted, earmarked \$6.0 million in Airport Parking Tax revenue each fiscal year (starting in FY 2002-03) to the SAF (by way of the Airport Parking Tax Fund created in the Act). It was anticipated that \$5.0 million would be used for ASAP (CTF) debt service, and \$1.0 million to other Aeronautics safety and security projects not eligible for bond financing. The specific language of HB 4454 is as follows:

*"...the state treasurer shall make a distribution from the fund in the following order of priority: To the state aeronautics fund created in section 34 of the aeronautics code of the state of Michigan, 1945 PA 327, MCL 259.34, an amount that equals a total of \$6,000,000.00 per state fiscal year. The funds distributed subject to this subdivision shall be used exclusively for safety and security projects at state airports, including reimbursement to the comprehensive transportation fund of amounts used to pay principal and interest on bonds issued on or before December 31, 2007 by the state transportation commission under section 18b of 1951 PA 51, MCL 247.668b, to provide the matching funds by this state for federal funds to be used for safety and security at state airports."*

In April 2003, the State Transportation Commission authorized the sale of up to \$38.0 million in CTF bonds. In June 2003, the department issued \$35.0 million in CTF bonds under this authorization. The bond project list included \$88.5 million in various CTF bond projects and \$60.0 million for ASAP airport improvement projects. The department identified \$24.0 million from the bond proceeds as related to the ASAP program. The department anticipates selling up to \$36.0 million more in CTF bonds for the ASAP program to reach the \$60.0 million estimated program requirement, although it has not yet requested this bonding authority from the State Transportation Commission.

Note that the bond project list represents the pool of projects for which the bond proceeds may be used. Proceeds from sales of notes or bonds can be used only for projects included in the note or bond resolution project list. However, the proceeds are not earmarked for any particular project or projects on the list. Some of the projects on the list may be constructed using other state-restricted or federal aid revenue sources.

With regard to the proposed list of projects as shown in the Capital Outlay bills and in the ASAP bond project list: The department indicates that projects are developed by eligible airports which submit applications for department review and approval. Final project approval is made by the State Aeronautics Commission.

**House Bill 5154** (Rep. Palmer) – The department has indicated that there is currently sufficient SAF revenue to match available federal AIP program funds. This is due, in part, to the reauthorization of the AIP program in *Vision 100* (Public Law 108-176) which increased the federal share from 90% to 95% of project cost and effectively reduced the SAF share of AIP project cost from 5% to 2.5% of project cost.<sup>3</sup> House Bill 5154 would expand the allowable uses of the SAF's share of Airport Parking Tax revenue to include non-federal participating projects, i.e. projects funded exclusively with SAF and local matching funds. The use of these funds would still be limited to safety and security projects at Michigan airports.

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<sup>3</sup> The remaining non-federal share of project cost is borne by the airport owner. These funds are identified as "local revenue" in Capital Outlay appropriations.